



## Senate

General Assembly

**File No. 148**

January Session, 2015

Substitute Senate Bill No. 520

*Senate, March 23, 2015*

The Committee on Veterans' Affairs reported through SEN. FLEXER of the 29th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

### ***AN ACT CONCERNING MILITARY RETIREMENT PAY.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1       Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of  
2       section 12-701 of the general statutes is repealed and the following is  
3       substituted in lieu thereof (*Effective from passage and applicable to taxable*  
4       *years commencing on or after January 1, 2015*):

5       (B) There shall be subtracted therefrom (i) to the extent properly  
6       includable in gross income for federal income tax purposes, any  
7       income with respect to which taxation by any state is prohibited by  
8       federal law, (ii) to the extent allowable under section 12-718, exempt  
9       dividends paid by a regulated investment company, (iii) the amount of  
10      any refund or credit for overpayment of income taxes imposed by this  
11      state, or any other state of the United States or a political subdivision  
12      thereof, or the District of Columbia, to the extent properly includable  
13      in gross income for federal income tax purposes, (iv) to the extent  
14      properly includable in gross income for federal income tax purposes  
15      and not otherwise subtracted from federal adjusted gross income

16 pursuant to clause (x) of this subparagraph in computing Connecticut  
17 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the  
18 extent any additional allowance for depreciation under Section 168(k)  
19 of the Internal Revenue Code, as provided by Section 101 of the Job  
20 Creation and Worker Assistance Act of 2002, for property placed in  
21 service after December 31, 2001, but prior to September 10, 2004, was  
22 added to federal adjusted gross income pursuant to subparagraph  
23 (A)(ix) of this subdivision in computing Connecticut adjusted gross  
24 income for a taxable year ending after December 31, 2001, twenty-five  
25 per cent of such additional allowance for depreciation in each of the  
26 four succeeding taxable years, (vi) to the extent properly includable in  
27 gross income for federal income tax purposes, any interest income  
28 from obligations issued by or on behalf of the state of Connecticut, any  
29 political subdivision thereof, or public instrumentality, state or local  
30 authority, district or similar public entity created under the laws of the  
31 state of Connecticut, (vii) to the extent properly includable in  
32 determining the net gain or loss from the sale or other disposition of  
33 capital assets for federal income tax purposes, any gain from the sale  
34 or exchange of obligations issued by or on behalf of the state of  
35 Connecticut, any political subdivision thereof, or public  
36 instrumentality, state or local authority, district or similar public entity  
37 created under the laws of the state of Connecticut, in the income year  
38 such gain was recognized, (viii) any interest on indebtedness incurred  
39 or continued to purchase or carry obligations or securities the interest  
40 on which is subject to tax under this chapter but exempt from federal  
41 income tax, to the extent that such interest on indebtedness is not  
42 deductible in determining federal adjusted gross income and is  
43 attributable to a trade or business carried on by such individual, (ix)  
44 ordinary and necessary expenses paid or incurred during the taxable  
45 year for the production or collection of income which is subject to  
46 taxation under this chapter but exempt from federal income tax, or the  
47 management, conservation or maintenance of property held for the  
48 production of such income, and the amortizable bond premium for the  
49 taxable year on any bond the interest on which is subject to tax under  
50 this chapter but exempt from federal income tax, to the extent that

51 such expenses and premiums are not deductible in determining federal  
52 adjusted gross income and are attributable to a trade or business  
53 carried on by such individual, (x) (I) for a person who files a return  
54 under the federal income tax as an unmarried individual whose  
55 federal adjusted gross income for such taxable year is less than fifty  
56 thousand dollars, or as a married individual filing separately whose  
57 federal adjusted gross income for such taxable year is less than fifty  
58 thousand dollars, or for a husband and wife who file a return under  
59 the federal income tax as married individuals filing jointly whose  
60 federal adjusted gross income for such taxable year is less than sixty  
61 thousand dollars or a person who files a return under the federal  
62 income tax as a head of household whose federal adjusted gross  
63 income for such taxable year is less than sixty thousand dollars, an  
64 amount equal to the Social Security benefits includable for federal  
65 income tax purposes; and (II) for a person who files a return under the  
66 federal income tax as an unmarried individual whose federal adjusted  
67 gross income for such taxable year is fifty thousand dollars or more, or  
68 as a married individual filing separately whose federal adjusted gross  
69 income for such taxable year is fifty thousand dollars or more, or for a  
70 husband and wife who file a return under the federal income tax as  
71 married individuals filing jointly whose federal adjusted gross income  
72 from such taxable year is sixty thousand dollars or more or for a  
73 person who files a return under the federal income tax as a head of  
74 household whose federal adjusted gross income for such taxable year  
75 is sixty thousand dollars or more, an amount equal to the difference  
76 between the amount of Social Security benefits includable for federal  
77 income tax purposes and the lesser of twenty-five per cent of the Social  
78 Security benefits received during the taxable year, or twenty-five per  
79 cent of the excess described in Section 86(b)(1) of the Internal Revenue  
80 Code, (xi) to the extent properly includable in gross income for federal  
81 income tax purposes, any amount rebated to a taxpayer pursuant to  
82 section 12-746, (xii) to the extent properly includable in the gross  
83 income for federal income tax purposes of a designated beneficiary,  
84 any distribution to such beneficiary from any qualified state tuition  
85 program, as defined in Section 529(b) of the Internal Revenue Code,

86 established and maintained by this state or any official, agency or  
87 instrumentality of the state, (xiii) to the extent allowable under section  
88 12-701a, contributions to accounts established pursuant to any  
89 qualified state tuition program, as defined in Section 529(b) of the  
90 Internal Revenue Code, established and maintained by this state or  
91 any official, agency or instrumentality of the state, (xiv) to the extent  
92 properly includable in gross income for federal income tax purposes,  
93 the amount of any Holocaust victims' settlement payment received in  
94 the taxable year by a Holocaust victim, (xv) to the extent properly  
95 includable in gross income for federal income tax purposes of an  
96 account holder, as defined in section 31-51ww, interest earned on  
97 funds deposited in the individual development account, as defined in  
98 section 31-51ww, of such account holder, (xvi) to the extent properly  
99 includable in the gross income for federal income tax purposes of a  
100 designated beneficiary, as defined in section 3-123aa, interest,  
101 dividends or capital gains earned on contributions to accounts  
102 established for the designated beneficiary pursuant to the Connecticut  
103 Homecare Option Program for the Elderly established by sections 3-  
104 123aa to 3-123ff, inclusive, (xvii) to the extent properly [included]  
105 includable in gross income for federal income tax purposes, [fifty per  
106 cent of the] any income received from the United States government as  
107 retirement pay for a retired member of (I) the Armed Forces of the  
108 United States, as defined in Section 101 of Title 10 of the United States  
109 Code, or (II) the National Guard, as defined in Section 101 of Title 10 of  
110 the United States Code, (xviii) to the extent properly includable in  
111 gross income for federal income tax purposes for the taxable year, any  
112 income from the discharge of indebtedness in connection with any  
113 reacquisition, after December 31, 2008, and before January 1, 2011, of  
114 an applicable debt instrument or instruments, as those terms are  
115 defined in Section 108 of the Internal Revenue Code, as amended by  
116 Section 1231 of the American Recovery and Reinvestment Act of 2009,  
117 to the extent any such income was added to federal adjusted gross  
118 income pursuant to subparagraph (A)(x) of this subdivision in  
119 computing Connecticut adjusted gross income for a preceding taxable  
120 year, and (xix) to the extent not deductible in determining federal

121 adjusted gross income, the amount of any contribution to a  
122 manufacturing reinvestment account established pursuant to section  
123 32-9zz in the taxable year that such contribution is made.

124 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of  
125 section 12-701 of the general statutes, as amended by section 50 of  
126 public act 14-47, is repealed and the following is substituted in lieu  
127 thereof (*Effective July 1, 2015, and applicable to taxable years commencing*  
128 *on or after January 1, 2015*):

129 (B) There shall be subtracted therefrom (i) to the extent properly  
130 includable in gross income for federal income tax purposes, any  
131 income with respect to which taxation by any state is prohibited by  
132 federal law, (ii) to the extent allowable under section 12-718, exempt  
133 dividends paid by a regulated investment company, (iii) the amount of  
134 any refund or credit for overpayment of income taxes imposed by this  
135 state, or any other state of the United States or a political subdivision  
136 thereof, or the District of Columbia, to the extent properly includable  
137 in gross income for federal income tax purposes, (iv) to the extent  
138 properly includable in gross income for federal income tax purposes  
139 and not otherwise subtracted from federal adjusted gross income  
140 pursuant to clause (x) of this subparagraph in computing Connecticut  
141 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the  
142 extent any additional allowance for depreciation under Section 168(k)  
143 of the Internal Revenue Code, as provided by Section 101 of the Job  
144 Creation and Worker Assistance Act of 2002, for property placed in  
145 service after December 31, 2001, but prior to September 10, 2004, was  
146 added to federal adjusted gross income pursuant to subparagraph  
147 (A)(ix) of this subdivision in computing Connecticut adjusted gross  
148 income for a taxable year ending after December 31, 2001, twenty-five  
149 per cent of such additional allowance for depreciation in each of the  
150 four succeeding taxable years, (vi) to the extent properly includable in  
151 gross income for federal income tax purposes, any interest income  
152 from obligations issued by or on behalf of the state of Connecticut, any  
153 political subdivision thereof, or public instrumentality, state or local  
154 authority, district or similar public entity created under the laws of the

155 state of Connecticut, (vii) to the extent properly includable in  
156 determining the net gain or loss from the sale or other disposition of  
157 capital assets for federal income tax purposes, any gain from the sale  
158 or exchange of obligations issued by or on behalf of the state of  
159 Connecticut, any political subdivision thereof, or public  
160 instrumentality, state or local authority, district or similar public entity  
161 created under the laws of the state of Connecticut, in the income year  
162 such gain was recognized, (viii) any interest on indebtedness incurred  
163 or continued to purchase or carry obligations or securities the interest  
164 on which is subject to tax under this chapter but exempt from federal  
165 income tax, to the extent that such interest on indebtedness is not  
166 deductible in determining federal adjusted gross income and is  
167 attributable to a trade or business carried on by such individual, (ix)  
168 ordinary and necessary expenses paid or incurred during the taxable  
169 year for the production or collection of income which is subject to  
170 taxation under this chapter but exempt from federal income tax, or the  
171 management, conservation or maintenance of property held for the  
172 production of such income, and the amortizable bond premium for the  
173 taxable year on any bond the interest on which is subject to tax under  
174 this chapter but exempt from federal income tax, to the extent that  
175 such expenses and premiums are not deductible in determining federal  
176 adjusted gross income and are attributable to a trade or business  
177 carried on by such individual, (x) (I) for a person who files a return  
178 under the federal income tax as an unmarried individual whose  
179 federal adjusted gross income for such taxable year is less than fifty  
180 thousand dollars, or as a married individual filing separately whose  
181 federal adjusted gross income for such taxable year is less than fifty  
182 thousand dollars, or for a husband and wife who file a return under  
183 the federal income tax as married individuals filing jointly whose  
184 federal adjusted gross income for such taxable year is less than sixty  
185 thousand dollars or a person who files a return under the federal  
186 income tax as a head of household whose federal adjusted gross  
187 income for such taxable year is less than sixty thousand dollars, an  
188 amount equal to the Social Security benefits includable for federal  
189 income tax purposes; and (II) for a person who files a return under the

190 federal income tax as an unmarried individual whose federal adjusted  
191 gross income for such taxable year is fifty thousand dollars or more, or  
192 as a married individual filing separately whose federal adjusted gross  
193 income for such taxable year is fifty thousand dollars or more, or for a  
194 husband and wife who file a return under the federal income tax as  
195 married individuals filing jointly whose federal adjusted gross income  
196 from such taxable year is sixty thousand dollars or more or for a  
197 person who files a return under the federal income tax as a head of  
198 household whose federal adjusted gross income for such taxable year  
199 is sixty thousand dollars or more, an amount equal to the difference  
200 between the amount of Social Security benefits includable for federal  
201 income tax purposes and the lesser of twenty-five per cent of the Social  
202 Security benefits received during the taxable year, or twenty-five per  
203 cent of the excess described in Section 86(b)(1) of the Internal Revenue  
204 Code, (xi) to the extent properly includable in gross income for federal  
205 income tax purposes, any amount rebated to a taxpayer pursuant to  
206 section 12-746, (xii) to the extent properly includable in the gross  
207 income for federal income tax purposes of a designated beneficiary,  
208 any distribution to such beneficiary from any qualified state tuition  
209 program, as defined in Section 529(b) of the Internal Revenue Code,  
210 established and maintained by this state or any official, agency or  
211 instrumentality of the state, (xiii) to the extent allowable under section  
212 12-701a, contributions to accounts established pursuant to any  
213 qualified state tuition program, as defined in Section 529(b) of the  
214 Internal Revenue Code, established and maintained by this state or  
215 any official, agency or instrumentality of the state, (xiv) to the extent  
216 properly includable in gross income for federal income tax purposes,  
217 the amount of any Holocaust victims' settlement payment received in  
218 the taxable year by a Holocaust victim, (xv) to the extent properly  
219 includable in gross income for federal income tax purposes of an  
220 account holder, as defined in section 31-51ww, interest earned on  
221 funds deposited in the individual development account, as defined in  
222 section 31-51ww, of such account holder, (xvi) to the extent properly  
223 includable in the gross income for federal income tax purposes of a  
224 designated beneficiary, as defined in section 3-123aa, interest,

225 dividends or capital gains earned on contributions to accounts  
226 established for the designated beneficiary pursuant to the Connecticut  
227 Homecare Option Program for the Elderly established by sections 3-  
228 123aa to 3-123ff, inclusive, (xvii) to the extent properly includable in  
229 gross income for federal income tax purposes, [fifty per cent of the]  
230 any income received from the United States government as retirement  
231 pay for a retired member of (I) the Armed Forces of the United States,  
232 as defined in Section 101 of Title 10 of the United States Code, or (II)  
233 the National Guard, as defined in Section 101 of Title 10 of the United  
234 States Code, (xviii) to the extent properly includable in gross income  
235 for federal income tax purposes for the taxable year, any income from  
236 the discharge of indebtedness in connection with any reacquisition,  
237 after December 31, 2008, and before January 1, 2011, of an applicable  
238 debt instrument or instruments, as those terms are defined in Section  
239 108 of the Internal Revenue Code, as amended by Section 1231 of the  
240 American Recovery and Reinvestment Act of 2009, to the extent any  
241 such income was added to federal adjusted gross income pursuant to  
242 subparagraph (A)(x) of this subdivision in computing Connecticut  
243 adjusted gross income for a preceding taxable year, (xix) to the extent  
244 not deductible in determining federal adjusted gross income, the  
245 amount of any contribution to a manufacturing reinvestment account  
246 established pursuant to section 32-9zz in the taxable year that such  
247 contribution is made, and (xx) to the extent properly includable in  
248 gross income for federal income tax purposes, for the taxable year  
249 commencing January 1, 2015, ten per cent of the income received from  
250 the state teachers' retirement system, for the taxable year commencing  
251 January 1, 2016, twenty-five per cent of the income received from the  
252 state teachers' retirement system, and for the taxable year commencing  
253 January 1, 2017, and each taxable year thereafter, fifty per cent of the  
254 income received from the state teachers' retirement system.

This act shall take effect as follows and shall amend the following sections:



Section 1	<i>from passage and applicable to taxable years commencing on or after January 1, 2015</i>	12-701(a)(20)(B)
Sec. 2	<i>July 1, 2015, and applicable to taxable years commencing on or after January 1, 2015</i>	12-701(a)(20)(B)

**Statement of Legislative Commissioners:**

Section 2 was added to restore language added in public act 14-47 which becomes effective July 1, 2015.

**VA**      *Joint Favorable Subst. -LCO*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

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### **OFA Fiscal Note**

#### **State Impact:**

<b>Agency Affected</b>	<b>Fund-Effect</b>	<b>FY 16 \$</b>	<b>FY 17 \$</b>
Revenue Serv., Dept.	GF - Revenue Loss	6.0 million	4.0 million

**Municipal Impact:** None

#### **Explanation**

The bill, which increases the state income tax exemption for military retirement pay from 50% to 100% beginning in income year 2015, results in a revenue loss of \$6.0 million in FY 16 and \$4.0 million annually thereafter. The estimate is higher in FY 16 because the figure represents 18 months of the policy (January 2015-June 2016).

#### **The Out Years**

The annualized ongoing fiscal impact identified above would continue into the future subject to changes in military pension amounts and the volume of recipients.

Sources: Department of Revenue Services Fiscal Year 2013-2014 Annual Report

**OLR Bill Analysis****sSB 520*****AN ACT CONCERNING MILITARY RETIREMENT PAY.*****SUMMARY:**

This bill fully exempts federally taxable military retirement pay from the state income tax. Current law exempts 50% of this retirement pay.

The exemption applies to federal retirement pay for retired members of the U. S. Army, Navy, Air Force, Marine Corps, Coast Guard, and Army and Air National Guard.

The bill also makes a technical change.

**EFFECTIVE DATE:** Upon passage and applicable to taxable years beginning on or after January 1, 2015, except for the technical change which takes effect July 1, 2015.

**BACKGROUND*****Related Bill***

The Veterans' Affairs Committee favorably reported HB 6779, which increases the 50% state income tax exemption for federally taxable military retirement pay by 10% annually until it is fully exempt in 2020.

**COMMITTEE ACTION**

Veterans' Affairs Committee

Joint Favorable

Yea 14 Nay 0 (03/05/2015)